

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1100-01  
Bill No.: HB 342  
Subject: Elderly; Taxation and Revenue - Property; State Tax Commission;  
Taxation and Revenue - General  
Type: Original  
Date: February 26, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue *	\$0	\$0	Unknown
<b>Total Estimated Net Effect on General Revenue Fund *</b>	<b>\$0</b>	<b>\$0</b>	<b>Unknown</b>

\* expected to exceed \$100,000.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Blind Pension *	\$0	\$0	(Unknown)
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>\$0</b>	<b>\$0</b>	<b>(Unknown)</b>

\* expected to exceed \$100,000.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 11 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government *</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\* Expected to exceed \$100,000 per year.

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

In response to a similar proposal, officials from the **Office of the Secretary of State** assume this bill would create the Missouri Homestead Preservation Act. The State Tax Commission would promulgate rules to enact this legislation. Based on experience with other divisions, the rules, regulations, and forms issued by the State Tax Commission could require as many as 8 pages in the Code of State Regulations and half again as many pages in the Missouri Register because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the Register is \$23 and the estimated cost of a page in the Code is \$27. The actual cost could be more or less than the numbers given. The impact of the legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.  $((8 \times \$27) + (12 \times \$23) = \$492)$

ASSUMPTION (continued)

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Revenue** (DOR) assume this proposal would create the Missouri Homestead Preservation Act. Senior citizens will still be required to pay property taxes, and will therefore still be eligible for the property tax credit. There is no administrative impact to DOR. The Department defers to the State Tax Commission or Budget and Planning for an estimate of the revenue impact.

In response to a similar proposal, officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would freeze the assessed value on residential property owned by a person 65 years old or older if the property has been owned at least five years and the person's adjusted gross income is less than \$75,000, and would limit increases in the assessed value of other residential property.

This proposal would prevent the assessed valuation of residential property from keeping pace with the local economy on property sales and may result in less local revenue for taxing jurisdictions including school districts. Freezing the value of some residential property may result in less total reassessment value increase for the taxing jurisdiction. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

While the proposal does not reference the state school aid foundation formula, non-hold harmless districts (districts on the formula) could potentially recover the lost local revenues through the state aid formula if the appropriation for the formula would be sufficient to provide a proration factor no less than 1.00. It is unlikely that the formula would have a proration factor of 1.00. The local deductions (Line 2) in the foundation formula would not increase as much as current law provides since the assessed valuation for the district will not increase as much as it would without the exemption, thereby increasing the cost to fund the state foundation formula at a proration factor of no less than 1.00. If the formula is not funded at the 1.00 level, the school districts would need a separate payment to replace the lost revenue due to the homestead exemption.

ASSUMPTION (continued)

DESE officials assume that hold harmless districts will experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue even if the foundation formula is funded at the 1.00 level. The lowered assessment would in three years start to reduce the increase in the state guaranteed tax base and the increased formula cost may be zeroed out after the third year for any given year's assessed value. A reduced guaranteed tax base reduces the inflationary adjustment needed in the formula for districts to fund inflationary increases of its education and operational expenses.

Appropriating funds for the homestead exemption reduces state money available for other state needs. DESE does not have data available to estimate the amount of fiscal impact at the state or local level.

**Oversight** assumes the Foundation Formula and other school finance issues, if any, would be addressed through the appropriation process.

Officials from the **Office of the Cole County Assessor** assume the office will incur one time programming change costs estimated at \$4000 for the year 2004.

The Assessor's office will have to maintain a separate accounting of homestead properties and this will require additional personnel time; the Cole County Assessor's office is understaffed and no additional requirements can be placed on the existing staff without sacrificing some other function of the office. It is estimated a quarter time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense of \$6000 per year, starting in 2004.

This bill may require the County to have additional administrative expenses for the process of collecting, reporting and submitting data to the State Auditor regarding revenue losses by the taxing jurisdictions. This will require work on the part of the Assessor, the Collector, and the Clerk, at a minimum. There is no funding in the bill for the extra duties that may be assigned and, with no other information available, a \$12,000 per year estimate for this item seems appropriate, additional to the \$6,000 amount listed above.

**Oversight** assumes there would be significant but unknown costs to the county assessors and has included these in the estimate of local fiscal impact. Oversight assumes this proposal does not mandate reporting to the State Auditor and has not included any local impact for such reporting.

ASSUMPTION (continued)

The Assessor's office assumes the average increase in the CPI for the past five years has been 2.46 per year or average of 4.92 for 2 year cycle (rounded to 5). It appears that the 5% listed in this section would be similar to CPI average for the recent past. Typically, in Cole County, appreciation rates of 4% to 5% per year are typical which would result in 8%-10% increases over a 2 year reassessment cycle. Thus, there would typically be a 3% to 5% difference for actual market appreciation over and above the 5% limit/CPI increase as written in the bill in any reassessment cycle.

The Assessor's office also assumes the loss to all taxing jurisdictions from this difference between market appreciation and limits set by the bill, in a typical reassessment cycle, would be \$487,500 to \$812,500 for the year 2005 (reassessment year; assumes 65% of property value owned by those under 65). There would be no loss in 2004 or 2006 as these are not reassessment years. It is assumed that slightly more would be lost in each succeeding reassessment cycle than the numbers shown above due to gradually increasing assessed value in each cycle.

It is estimated that persons over 65 make up 15% of the total county population. Of those who are of ownership age (18 years +), persons over 65 make up 20% of the potential owners in the county. It is assumed that a greater percentage of senior citizens own property than those under 25 years of age, and overall it is estimated that owners over 65 own 35% of the residential property in Cole County (estimates are on the high end so as not to underestimate).

For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions caused by this bill is approximately \$720,000. This is in addition to the amount(s) shown under losses on item 2, page 1, above.

No political subdivisions would be reimbursed if this bill is enacted and political subdivisions would realize a large loss in revenue.

The Assessor's work load would not change as all properties would still need to be inspected during for additions, alterations, and/or deletions, including non-reassessment years. As stated earlier, the work load of the Assessor would actually increase due to the administrative cost of implementing this program.

The Assessor does not have enough data to determine the impact of the Missouri Property Tax Credit program as it pertains to Cole County.

ASSUMPTION (continued)

Officials from the **State Tax Commission** (Commission) assume there would be a substantial revenue loss to local political subdivisions including schools.

Residential Property is reassessed in odd-numbered years. Calendar year 2003 is a reassessment year with minimal assessed valuation changes to the residential property in following year (2004). Although this legislation will be effective on January 1, 2004, we are assuming that the impact of this proposal would not be realized until the next reassessment year occurring in calendar year 2005 with the collections occurring in Fiscal Year 2006.

The 2002 assessment valuation for residential property is 33.1 billion dollars. We are assuming a seven percent (7%) increase in the assessed valuation in 2003 resulting in an additional 2.3 billion dollars in revenue. We project that in 2003 the assessment valuation for residential property will be 34.5 billion dollars. As there are minimal improvements to residential property in an even-number year, we will assume for 2004 the assessment valuation will again be approximately 35.4 billion dollars. In 2005, the next reassessment year, we assume there will be a loss of revenue as a result of this legislation. Assuming that 70.3% of the residential property will be effected by this legislation and the statewide tax rate will be \$6 per hundred, the revenue loss will be approximately 83 million dollars.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 10.3% of the householders 65 and older. We do not have any data available on the number of property owners 65 years and older who have used such property as a homestead for a period of less than five years. Therefore, we are assuming for the purposes computing the loss of revenue, that all property owner who are 65 and older have resided in their owner-property for five years or more. The CPI-U certified to the county Clerks was 1.6 percent in April, 2002

ASSUMPTION (continued)

The Commission assumes:

Residential Assessment Valuation for Calendar Year 2003 is \$35.400,000,000.

\$35.4 Billion x 70.3% (residential property owner occupied) = \$24.9 Billion

\$24.9 Billion x 10.3% (residential property owner occupied over 65) = \$2.5 Billion

\$24.9 Billion minus \$2.5 Billion (owner over 65) = \$22.4 Billion Owner Occupied

\$22.4 Billion x 7% Average Assessment = \$1, 563,553,195 Increase

\$22.4 x 1.6% CPI (April, 2002) = \$357, 381,301 Increase

\$1,563,553,195 minus \$357,381,301 = \$1,206,161,894 Lost Reassessment Increase

\$1,206,161,894 x \$6 per hundred state tax rate = \$72,369,713 Tax Loss

Residential 65 and older, owner occupied = \$2,564,819,561

\$2,564,819,561 x 7% Average Assessment = \$179,537,369

\$179,537,369 x \$6 per hundred state tax rate = \$10,772,242. Tax Loss

Total Tax Loss would be approximately \$72,369,713 + 10,772,242. = \$83,141,995

This legislation states that any person claiming the newly created homestead exemption would not be eligible to file a claim for the property tax credit; or if the person desires to file a claim for the property tax credit, they may not claim the homestead exemption.

If the person desires to claim the homestead exemption there could be a positive fiscal impact to the General Revenue and Blind Pension Funds. However, we do not have any information available on how many owners would choose the homestead exemption or the property tax credit, therefore, we are unable to project any revenue gain.

ASSUMPTION (continued)

**Oversight** assumes that actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on certain individual parcels would in turn reduce the tax rate rollback required. This proposal would become effective January 1, 2004, for taxes to be collected in FY 2005. Oversight assumes that FY 2005 property tax losses would be minimal. Oversight assumes that net losses to political subdivisions from this provision, as compared to current law are unknown but would exceed \$100,000 per year.

Oversight assumes that the impact of requiring taxpayers to choose between the Homestead Tax Exemption and the Missouri "Circuit Breaker" property tax credit is unknown, but could be significant. Oversight assumes the Homestead Tax Exemption and resulting losses to taxing authorities would be greater than the reduction in property tax credits claimed because the property tax credit is computed using more restrictive income limitations. A reduction in property tax credits claimed would increase reported personal income tax revenues.

Oversight assumes there would be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

**This proposal could affect total state revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>GENERAL REVENUE FUND</b>			
<u>Revenue - Reduction in "Circuit Breaker"</u>			
Property Tax Credits Claimed *	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>Unknown</u></b>

\*Expected to exceed \$100,000 per year; does not include possible costs to fully fund Foundation Formula.



<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>BLIND PENSION FUND</b>			
<u>Revenue reduction</u>			
Reduced tax collections *	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
<b>NET EFFECT ON BLIND PENSION FUND *</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>
* expected to exceed \$100,000.			
<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>POLITICAL SUBDIVISIONS</b>			
<u>Revenue reduction</u>			
Reduced tax collections *	\$0	\$0	(Unknown)
<u>Cost to counties</u>			
Additional administrative cost to county assessor. *	(Unknown)	(Unknown)	(Unknown)
<b>NET EFFECT ON POLITICAL SUBDIVISIONS *</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
* expected to exceed \$100,000.			

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

## DESCRIPTION

This proposal would create the Missouri Homestead Preservation Act:

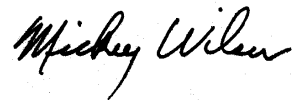
- A. The assessed value of residential property owned by a person under sixty-five years of age and used as a homestead, or owned by a person sixty-five years of age or older and used as a homestead for a period of less than five years, would not increase during any two-year reassessment period by more than the lesser of the change in the consumer price index or five percent.
- B. The assessed value of residential property owned by a person sixty-five years of age or older and used as a homestead for a period of at least five years would not increase during the period of time such person resides on that property.
- C. Age and years of residence would be determined as of January first of each odd-numbered year and documented by affidavit of the owner.
- D. A person claiming a homestead exemption would not be eligible to claim the Missouri "Circuit Breaker" property tax credit and a person claiming the property tax credit would not be eligible for the homestead exemption.
- E. The director of revenue may promulgate rules and regulations to administer this section pursuant to chapter 536, RSMo.
- F. This section would become effective January 1, 2004, and would apply to all taxable years beginning after December 31, 2003.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

**This proposal could affect total state revenue.**

SOURCES OF INFORMATION

State Tax Commission  
Office of the Cole County Assessor  
Department of Revenue

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 26, 2003